

## RETAIL - MCTC & ARS Differences

Retail		
STATE ARS § 42-5061	MODEL CITY TAX CODE Sec 460 & Sec 465	PROPOSAL/COMMENTS
	<b>City Only language / No impact to State</b>	
No similar provision is in ARS.	The Model Code provides the ability with <b>Local Option V</b> to tax <b>big-ticket purchases</b> at a lower rate.(2-tier MCTC Sec. 460(d))	City only issue. Propose to leave as is.
No similar provision is in ARS.	<b>When two cities can claim nexus</b> for taxing a retail sale, establishes which city has precedence and sole/exclusive right to the tax. (MCTC Sec. 460(e) & (f))	City only issue. Propose to leave as is.
No determination for <b>out-of-city sales</b> exists in the State Statute.	The Model Code defines out-of-city sales using <b>three criteria</b> : 1 Transfer of title and possession occur outside of the city. 2 Inventory sales item was taken from is outside of the city. 3 Order is received from business whose permanent location is outside of the city (MCTC Sec. 100; “Out-of-City Sales”)	City only issue. Propose to leave as is.
The State exempts sales of food for home consumption. (ARS 42-5061.A.15 & ARS 42-5101..5106)	The Model Code exempts food for home consumption unless <b>Model Option 2</b> for cities and towns to tax food. (MCTC Sec. 120)	Propose to create a separate tax classification for Food for Home Consumption in the MCTC in which a City can choose the tax rate. This will eliminate the Model Option. If the City prefers to allow an exemption, the City can elect a 0.0% tax rate.

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	<b>Cities and AZ Standardization Agreed</b>	
The State exempts <b>food</b> provided by a <b>restaurant without monetary</b> charge to its employees. (ARS 42-5061.A.18)	The Model Code taxes unless <b>Local Option AA</b> is chosen to exempt. (MCTC Sec. 465(x))	Cities are willing to adopt this exemption and remove the Local Option.
<b>Magazines</b> and other publications by the State <b>to encourage tourist travel</b> are exempt from the State. (ARS 42-5061.A.26)	The Model Code does not provide this exemption.	Cities are willing to adopt this exemption.
The State exempts the sale of <b>paper machine clothing</b> to a paper manufacturer. (ARS 42-5061.A.37)	The Model Code does not provide this specific exemption, however item would be exempt under the Model Code. Model Code allows for exemption of expendable items when used directly in the manufacturing process. (MCTC Sec. 110(d)(1))	Cities are willing to adopt this exemption.
The State exempts <b>overhead materials</b> or other tangible personal property that is used in performing a <b>contract</b> between the <b>United States</b> government and a manufacturer, modifier, assembler or repairer. This includes property used in performing a subcontract with a government contractor who is a manufacturer, modifier, assembler or repairer, to which title passes to the government under the terms of the contract or subcontract. Also included are sales of overhead materials or other tangible personal property to a manufacturer, modifier, assembler or repairer if the gross proceeds of sales or gross income derived from the property by the manufacturer, modifier, assembler or repairer will be exempt. (ARS 42-5061.J.3)	The Model Code does not provide this exemption. Items are exempt per federal regulation. See Motorola v. Arizona Department of Revenue.	Cities are willing to adopt this exemption.

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The State exempts <b>food sales</b> to a regularly organized private, parochial, or charter schools. (ARS 42-5102.C.1)	The Model Code does not provide this specific exemption, however sales to educational entities pursuant to the provisions of Title 15, ARS is exempt and therefore both AZ and MCTC exempt these sales. (MCTC Sec. 465(gg))	Cities are willing to adopt this exemption for clarification.
The State exempts sales of machinery, equipment, materials and other tangible personal property <b>used directly and predominantly</b> to construct a qualified <b>environmental technology manufacturing</b> , producing or processing facility. (ARS 42-5061.D)	The Model Code does not provide this exemption.	Cities are willing to adopt this exemption.
The State considers the total amount of gross income, gross receipts or gross proceeds of sales for nuclear fuel to be the value of the purchase price of uranium oxide used in producing the fuel.	The Model Code does not provide this exemption.	Currently this is a State only issue. Cities are willing to adopt this exemption for clarification.

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	<b>Cities and AZ Agreed to Standardization (working on draft language)</b>	
The State exempts sales of <b>food or drink</b> and accessories to a <b>public school district</b> . (ARS 42-5061.A.19)	The Model Code exemption includes these items. Model Code provides a definition of “accessories”. (MCTC Sec. 465(gg))	Propose revising ARS to adopt MCTC language.
The State exempts machinery, equipment, technology or related supplies that are only useful to assist a person who is physically disabled as defined in A.R.S. 46-191, has a developmental disability as defined in A.R.S. 36-551 or has a head injury as defined in A.R.S. 41-3201, to be more independent and functional. (ARS 42-5061.A.34)	The Model Code would exempt these items to the extent they qualify under the exemption for prosthetics. (MCTC Sec. 100; “Prosthetic”)	Cities are willing to adopt this exemption. State and Cities to work on language.
The State allows a retailer who is a street or <b>sidewalk vendor</b> and who uses a pushcart, mobile facility, motor vehicle or other such conveyance to sell food for home consumption is exempt. (ARS 42-5102.A.5)	The Model Code does not specifically state this for cities which exempt food for home consumption. (MCTC Sec. 120)	Cities are State will work on similar language.
The State exempts sales of implants used as growth <b>promotants and injectable</b> medicines, not otherwise exempt, for livestock or poultry owned by or in possession of persons who are engaged in producing livestock, poultry, or livestock or poultry products or who are engaged in feeding livestock or poultry commercially. (ARS 42-5061.A.44)	The Model Code exempts the sale of drugs/medicines recommended by a veterinarian or the sale of vitamins for feeding livestock. (MCTC Sec. 100; “Prosthetic” & MCTC Sec. 465(r))	Cities are willing to adopt this exemption for clarification. State and Cities to work on language.

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	<b>Impact Data Needed</b>	
The State allows the <b>purchaser of motor vehicles to take possession of the vehicle and drive it out</b> of the State if the purchaser's State of residence imposes a tax and <b>does not allow for reciprocity</b> and the non-resident obtains a 30-day non-resident registration. See reciprocity list. (ARS 42-5061.A.28(a))	The Model Code <b>requires delivery</b> of the motor vehicle to take place out-of-state. (ARS 42-6004.4 & MCTC Sec. 465(l))	Nexus for the sale is in Arizona at the dealership location. Working on AZ & City impact.
The State exempts sales of <b>motor vehicles to enrolled members of Indian tribes</b> that reside on reservations established for that tribe. (ARS 42-5061.A.28(b))	The Model Code exempts any retail sales to Native Americans or tribal councils <b>provided the order is solicited and placed from the reservation</b> , and delivery is made to the reservation, and the payment originates from the reservation. (MCTC Reg. 100.4)	Nexus for the sale is at the dealership location. Working on AZ & City impact.
The State allows a portion of gross income of the <b>sales of motor vehicles</b> so that <b>the tax amount that is paid to AZ is equal to the tax imposed in the purchaser's state of residence IF the purchaser's State of residence allows for reciprocity</b> and the nonresident has secured a special 90-day nonresident registration permit for the vehicle. The purchaser can take possession of the vehicle in AZ and drive it out of the State within 90 days of purchase. (ARS 42-5061.U)	The Model Code <b>requires delivery</b> of vehicle to take place out-of-state. (ARS 42-6004.4 & MCTC Sec. 465(l))	Nexus for the sale is in Arizona at the dealership location. Working on AZ & City impact.
The State exempts <b>sales to nonresidents</b> when the vendor ships or delivers <b>outside the state</b> . (ARS 42-5061.A.14)	The city/town also requires that the <b>order be placed</b> from outside the state in order for the sale to be exempt, except for the sale of motor vehicles. (MCTC Sec. 100; "Out-of-State Sales")	Nexus for the sale is in Arizona at the seller's location when the nonresident is physically located in AZ and the order is placed within AZ. Working on AZ & City impact.

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The State exempts the sale of <b>textbooks</b> that is required by a state university or community college. (ARS 42-5061.A.17)	The Model Code taxes unless <b>Local Option Z</b> is chosen to exempt. (MCTC Sec. 465(w))	Working on City impact.
The State exempts the sale of neat animals, horses, asses, sheep, ratites, swine or goats used or to be used as <b>breeding or production stock</b> , including sales of breeding or ownership shares in such animals used for breeding or production. (ARS 42-5061.B.5)	The Model Code exempts animals purchased or raised for slaughter. <b>Local Option W</b> expands the tax exemption to neat animals, horses and other breeding or production stock which is same as ARS. <b>Model Option 10</b> is chosen to impose a tax. (MCTC Sec. 465(r))	Working on City impact.
The State exempts <b>fertilizer, fungicides</b> , seed treating chemicals and other similar chemicals purchased by persons continuing in the business of <b>farming, ranching, or feeding livestock, poultry or ratites</b> . (ARS 42-5061.A.44)	The Model Code exempts fertilizer, fungicides, seed treating chemicals and other similar chemicals purchased by persons continuing in the business of farming, ranching, or feeding livestock, poultry or ratites <b>unless Model Option 10</b> is chosen. (MCTC Sec. 465(r))	Working on City impact.
The State does not provide this exemption.	The Model Code taxes tangible personal property <b>destroyed by stress testing</b> for purposes of development engineering, information or quality control, unless <b>Local Option CC</b> chosen. (MCTC Sec. 465(z))	6 Cities exempt (Glendale, Huachuca City, Mesa, Oro Valley, Payson, Tolleson). No deduction code for this exemption on AZ or Cities return. Working on City impact.
The State exempts <b>new</b> machinery and equipment consisting of tractors, tractor-drawn implements, self-powered implements, machinery and equipment that are necessary for extracting <b>milk, and for cooling milk</b> and livestock, and <b>drip irrigation lines</b> used for commercial production of agricultural, horticultural, viticultural and floricultural crops and products in this state. (ARS 42-5061.B.13)	The Model Code taxes unless <b>Local Option A</b> is chosen to exempt. (MCTC Sec. 110(a)(14))	No deduction code for this exemption on AZ or Cities return. Working on City impact.
The State exempts coal, petroleum, coke, natural gas, virgin fuel oil and electricity <b>sold</b> to an <b>environmental technology manufacturer, producer or processor</b> . (ARS 42-5061.A.38)	The Model Code does not provide this exemption.	Working on AZ & City impact.

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